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Enclosure E

ISS Estimate of the Dollar Value of
Soviet Defense Expenditures for 1965

The Institute for Strategic Studies (ISS) recently (September 1967) published an estimate of Soviet military expenditures for 1965 of 24.5 billion rubles, which they convert to the equivalent of \$27 billion.

The ISS estimates of Soviet military expenditures are based on the work done by Lubell and Benoit, whose estimates for 1962 are included and explained in Disarmament and World Economic Interdependence. (Columbia University Press, 1967) These 1962 estimates were in some cases updated by the ISS in consideration of later, although uncited, information.

The low ISS figure for the dollar value of Soviet military outlays is the result of applying an inadequate conversion methodology to its ruble estimate for 1965. Apparently, the ISS merely converted its figure of approximately 24.5 billion rubles (which was arrived at by an update of Lubell and Benoit's 1962 figure) by means of the official exchange rate. This, according to Lubell and Benoit themselves, is an insufficient method, and provides a "poor basis for international comparison of the real volume of economic resources being absorbed by the military programs of different countries." (Lubell and Benoit, op. cit. p. 38).

The more accurate method subscribed to by Lubell and Benoit — but not applied by ISS — would be to convert the ruble figures on the basis of purchasing power parities. The use of such ratios would make adjustments for variances in the general price levels and differences in the impact of taxes, subsidies, wages, and so forth, on different expenditure categories.

Had the purchasing power parity method been used the authors would have obtained a much higher figure for the dollar equivalent of Soviet defense expenditures; a figure which we would compute to be on the order of \$50 billion or more.

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3. The estimated percentage of GNP spent on defense for the area as a whole is between $4\frac{1}{2}$ and 5 percent of GNP, compared to about $5\frac{1}{2}$ percent for the European NATO countries as a group. Given the range of error in the estimates this difference is probably not significant.

4. The above estimates for Eastern Europe should be taken as only approximations. Some of the problems in estimating presumably would be solved by further research; some would not. The estimates are based on the announced military budget figures, which have been adjusted in a number of ways, primarily to take account of expenditures included elsewhere in the budgets.

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